Government of
Saskatchewan

Annual Report
2005 - 2006

Agri-Food Innovation Fund

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This annual report is also available in electronic format from the website of Saskatchewan Agriculture and Food at **www.agr.gov.sk.ca**.

Letters of Transmittal

Honourable Mark Wartman
Minister of Saskatchewan Agriculture and Food

Dear Sir:

I am pleased to present herewith the Annual Report of the Agri-Food Innovation Fund for the 12 months ending March 31, 2006.

Respectfully submitted,

Jack Zepp

Jack Zepp
Chair
Board of Directors
Agri-Food Innovation Fund

Her Honour
The Honourable Lieutenant Governor
Dr. Lynda M. Haverstock
Province of Saskatchewan

July 15, 2006

Your Honour:

I have the honour to submit herewith the Annual Report of the Agri-Food Innovation Fund for the 12 months ending March 31, 2006.

I have the honour to be, Madam, your obedient servant,

Mark Wartman

Mark Wartman
Minister
Saskatchewan Agriculture and Food

106-06967/

Message from the Minister of Saskatchewan Agriculture and Food

The federal/provincial Agri-Food Innovation Fund Agreement ended March 31, 2003. Under *The Agri-Food Innovation Act*, the Province appointed a Saskatchewan Board of Directors to continue to manage the affairs of the fund and ongoing contractual obligations entered into under the agreement.

The Agri-Food Innovation Fund (AFIF) provided for a multitude of valuable projects and research results for Saskatchewan's agriculture and food industry since 1995. In Saskatchewan, there were 300 projects in eight key research sectors.

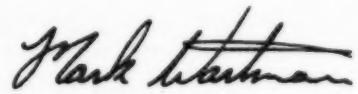
While the program is now winding down, there remain five projects, the results of which will continue to be monitored for the next few years.

Although the AFIF program has, for the most part, concluded, its legacy for agriculture in Saskatchewan and Canada will be apparent well into the future.

The AFIF program demonstrated that extraordinary achievements can be accomplished through co-operation and enthusiasm. AFIF was more than a program — it was an important collaboration of producers, industry, academics and governments, all working together to set and meet the program's goals.

AFIF has also proved to be an example of how the provincial and federal governments can work together in harmony to obtain the maximum benefit for taxpayers.

Saskatchewan's agriculture and food industry will benefit from AFIF's results and successes for years to come.



Mark Wartman
Minister of Agriculture and Food

Board of Directors

Mr. Jack Zepp, Chair
Director, Strategic Operations
Saskatchewan Agriculture and Food

Mr. Don Russell, Director
Mr. Louis Hradecki, Director
Ms. Linda Pipke, Director

Staff management services are provided through the Agriculture Research Branch of Saskatchewan Agriculture and Food.

How AFIF helped agriculture industry growth in Saskatchewan

The $91-million Canada-Saskatchewan Agri-Food Innovation Fund (AFIF), established in 1995, has assisted the agricultural sector of Saskatchewan's economy to become stronger and more diversified. More than 300 research, development and infrastructure projects were undertaken in support of the emerging primary production and value-added processing sectors within the province.

The funding provided to projects through AFIF will leave a lasting legacy and help Saskatchewan's agricultural economy to continue to grow for years to come.

When the Canada-Saskatchewan AFIF Agreement expired March 31, 2003, a new Saskatchewan Board of Directors was appointed under the *Saskatchewan Agri-Food Innovation Act*. This board has continued to manage the fund's ongoing business, including a few projects which were not completed when the AFIF agreement expired.

During the 12-month period ending March 31, 2006, AFIF paid $1,801,253 to eight projects.

In 2005-06, $1.2 million was provided to the Saskatchewan Pulse Growers to build a pulse research lab facility at the University of Saskatchewan Crop Development Centre.

Also in 2005-06, $900,000 over three years was allocated to the Prairie Agricultural Machinery Institute/Western Beef Development Centre (PAMI/WBDC). Of this amount, $270,000 was paid in 2005-06 to improve global competitiveness in the cow-calf and feeding industries in Saskatchewan.

As well, AFIF provided $90,000 to support a human resource development project that provides services to clients in small-to-medium sized businesses in Saskatchewan, in order to improve their business skills.

During the course of the program, AFIF focused on eight agriculture sectors. These were:

- Biotechnology;
- Food processing;
- Horticulture;
- Information technology;
- Non-food processing;
- Specialty crops;
- Specialized livestock; and
- Sustainable agriculture.

Some AFIF-supported projects produced an immediate impact on the economy, while other projects will continue to provide benefits well into the future. The fund is pleased to have invested in the development of several infrastructure, research and development projects in the province. Examples of some of these investments are described below.

Infrastructure projects included the Stockman's Arena in Regina, a facility dedicated to specialized livestock; the Crops Processing Development Centre at PAMI in Humboldt; vegetable facilities in Outlook; and the Pulse Field Lab at the Crop Development Centre, University of Saskatchewan.

AFIF funding to the Saskatchewan Food Industry Development Centre in Saskatoon has assisted the Centre in its work of providing production and marketing advice to Saskatchewan food processors. The Centre is the focal point for co-ordination and delivery of existing and new technical, business, educational and human resource services for the industry.

AFIF funding to the Spoke Site Program, now called the Saskatchewan Agriculture-Applied Research Management Program or the Agri-ARM Program, connected eight regional applied research and demonstration sites into a province-wide network. Each location has an affiliated producer group that sets the research priorities for that site.

Agri-ARM sites serve as centres for applied research and demonstration, focusing on increasing value from crops and enhancing production efficiency and environmental stewardship in a region. The Agri-ARM Program provides the forum for government, producers, researchers and industry associations to partner with provincial and regional projects.

AGRI-FOOD INNOVATION FUND

FINANCIAL STATEMENTS
For the Year Ended
March 31, 2006

Board of Directors' Report

To Members of the Legislative Assembly of Saskatchewan:

The Board of Directors of the Agri-Food Innovation Fund of Saskatchewan is responsible for the integrity of the accompanying financial statements and all other information in this 2005-06 Annual Report. It is the responsibility of management to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in Canada.

The integrity of the financial records from which these financial statements are prepared is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are appropriately recorded in order to permit preparation of financial statements; and, assets are properly accounted for and safe-guarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The financial statements have been audited by the Provincial Auditor of Saskatchewan. The report to the Members of the Legislative Assembly, stating the scope of the examination and opinions on the financial statements, appears on the following pages.

Jack Zepp

Jack Zepp
Chair
Board of Directors
Agri-Food Innovation Fund
June 12, 2006

AGRI-FOOD INNOVATION FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 2006

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SASKATCHEWAN

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Innovation Fund as at March 31, 2006 and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 12, 2006

Fred Wendel, CMA, CA
Provincial Auditor

Statement 1

AGRI-FOOD INNOVATION FUND
STATEMENT OF FINANCIAL POSITION
As at March 31

	2006	2005
FINANCIAL ASSETS		
Due from General Revenue Fund (Notes 4 & 5)	$ 1,560,296	$ 3,147,611
Interest receivable (Notes 4 & 5)	13,282	19,609
	1,573,578	3,167,220
LIABILITIES		
Accounts payable	46,904	139,337
NET FINANCIAL ASSETS (Statement 3)	1,526,674	3,027,883
NON-FINANCIAL ASSETS		
Prepaid expenses	312,986	467,707
ACCUMULATED SURPLUS (Statement 2)	$ 1,839,660	$ 3,495,590

(See accompanying notes to the financial statements)

Statement 2

AGRI-FOOD INNOVATION FUND
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
Year Ended March 31

	2006	2005
Revenue		
Interest revenue (Notes 4 & 5)	$ 56,089	$ 77,493
Miscellaneous	92,065	---
Total revenue	148,154	77,493
Expenses		
Contractual services - Strategic Projects	1,801,253	1,304,209
Board expenses	2,831	913
Total expenses	1,804,084	1,305,122
Deficit for the year	(1,655,930)	(1,227,629)
Accumulated surplus, beginning of year	3,495,590	4,723,219
Accumulated surplus, end of year (Statement 1)	$ 1,839,660	$ 3,495,590

(See accompanying notes to the financial statements)

Statement 3

AGRI-FOOD INNOVATION FUND
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
Year Ended March 31

	2006	2005
Deficit for the year	$ (1,655,930)	$ (1,227,629)
Acquisition of prepaid expense	(312,986)	(467,707)
Use of prepaid expense	467,707	838,670
Decrease in net financial assets	(1,501,209)	(856,666)
Net financial assets, beginning of year	3,027,883	3,884,549
Net financial assets, end of year (Statement 1)	$ 1,526,674	$ 3,027,883

Statement 4

AGRI-FOOD INNOVATION FUND
STATEMENT OF CASH FLOWS
Year Ended March 31

	2006	2005
Cash Flows from operating activities:		
Refunds from contractors	$ 92,065	$ ---
Interest received	62,416	83,472
Paid to contractors and suppliers	(1,741,796)	(921,362)
Net decrease in cash and cash equivalents	(1,587,315)	(837,890)
Cash and cash equivalents, beginning of year (Note 2 (c))	3,147,611	3,985,501
Cash and cash equivalents, end of year (Note 2 (c))	$ 1,560,296	$ 3,147,611

(See accompanying notes to the financial statements)

AGRI-FOOD INNOVATION FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2006

1. Authority and Definition

The Agri-Food Innovation Fund (Fund) was established effective March 31, 1995 pursuant to Section 3 of *The Agri-Food Innovation Act* as a corporation. The purpose of the Fund is to enhance the diversification of the Saskatchewan agriculture and food industry, support research and development and encourage farmers and rural residents to create economic opportunities and jobs.

On September 25, 1995, the Government of Saskatchewan entered into the Canada-Saskatchewan Agri-Food Innovation Agreement (Agreement) with the Government of Canada to achieve this purpose. On March 31, 2003 the Agreement with the Government of Canada expired. The Fund continues to administer the remaining provincial funding.

The Fund is administered by the Agri-Food Innovation Fund Board.

The Board has entered into contracts with various contractors to carry out projects for the purpose outlined above.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The following accounting principles are considered significant:

a) Revenue Recognition

Interest income is recognized as revenue when earned.

b) Receivables/Payables

These financial instruments are both interest and non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the carrying value of these financial instruments approximates fair value.

c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of amounts due from the General Revenue Fund.

3. Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates which could materially impact recorded amounts on the financial statements.

4. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

The Fund earned interest income of $56,089 (2005 - $77,493) on monies deposited in the General Revenue Fund. At year end, the Fund had monies deposited in the General Revenue Fund totalling $1,560,296 (2005 - $3,147,611).

In accordance with Section 9 of *The Agri-Food Innovation Act*, the Minister of Agriculture and Food may provide to the Fund any supplies and employee services required to carry out its responsibilities. The Fund received office space and administrative services from Saskatchewan Agriculture and Food without charge.

Included in accounts payable are amounts due to related parties of $12,959 (2005 - $65,000).

During the year, the Fund made expenses totalling $275,356 (2005 - $315,501) to related parties.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

5. Due From General Revenue Fund

The monies of the Agri-Food Innovation Fund are deposited in the General Revenue Fund. The Agri-Food Innovation Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate and the Agri-Food Innovation Fund's daily balance. The average thirty-day borrowing rate for the year was 2.82% (2005 – 2.19%).

6. Comparison of Planned and Actual Results for the Year Ended March 31, 2006

	Budget	Actual
Expenses:		
Board expenses	$ 2,000	$ 2,831
Office supplies	1,000	---
Contractual services - Strategic Projects	1,843,000	1,801,253
Communication activities	1,000	---
	$ 1,847,000	$ 1,804,084

The Board approved the budget for expenses at its February 2005 meeting.

7. Commitments

At March 31, 2006, the Board had approved Strategic Projects that will be expended in future years.

March 31, 2007	$ 399,000
March 31, 2008	$ 330,000

Schedule 1

AGRI-FOOD INNOVATION FUND
DETAILS OF EXPENSES (UNAUDITED)
For the Year Ended March 31

		2006
Strategic Projects		
Canada-Saskatchewan Irrigation Diversification Centre	$	10,000
Prairie Agricultural Machinery Institute		270,000
Chicken Farmers of Saskatchewan		7,397
Saskatchewan Pulse Growers		1,210,470
Western Beef Development Centre Inc.		50,000
Wheatland Conservation Area Inc.		5,000
Indian Head Agriculture Research Foundation		5,000
East Central Research Foundation		5,000
Marmax Consultants Inc.		90,000
Northeast Agriculture Research Foundation		4,868
Saskatchewan Fruit Growers Association		946
Net Accrual Adjustments		142,572
Total Strategic Projects		1,801,253
Supplier Payments		
Payees under $5,000		2,831
Total	$	1,804,084